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June 1, 2001

RECEIVED
JUN 0 1 2001
PUBLIC SERVICE COMMISSION

HAND DELIVERY
Mr. Thomas M. Dorman
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

Case 2001-169

RE: *Joint Application of Louisville Gas and Electric Company and Kentucky Utilities Company for an Order Approving Proposed Deferred Debits and Declaring the Amortization of the Deferred Debits to be Included in Earnings Sharing Mechanism Calculations*
Our File No. 1/247

Dear Mr. Dorman:

Please find enclosed and accept for filing the original and ten (10) copies of the Joint Application and the original and ten (10) copies of a Motion for Informal Conference in the above-referenced case. Please confirm your receipt of this filing by placing the stamp of your office with the date received on the enclosed additional copy of this filing and return it to me in the self-addressed stamped envelope.

The Joint Applicants request the Commission to issue an order scheduling an informal conference during the week of July 16, 2001 at the offices of the Commission in Frankfort, Kentucky.

Should you have any questions concerning the enclosed, please contact me at your convenience.

Yours very truly,

Kendrick R. Riggs

Kendrick R. Riggs

KRR/ec
Enclosures

RECEIVED

JUN 0 1 2001

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR AN ORDER APPROVING PROPOSED DEFERRED DEBITS AND DECLARING THE AMORTIZATION OF THE DEFERRED DEBITS TO BE INCLUDED IN EARNINGS SHARING MECHANISM CALCULATIONS	)	**CASE NO: 2001-169**

JOINT APPLICATION

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively referred to as "Applicants"), by counsel, hereby petition the Commission, for an order approving the deferral of the costs of their Workforce Transition Separation Program as deferred debits and declaring that amortization of the resulting regulatory assets be included in the calculation of their annual Earnings Sharing Mechanisms ("ESM") filings.

In support of this Application, LG&E and KU state as follows:

1. LG&E is a Kentucky corporation organized pursuant to Kentucky law. LG&E's post office address is P. O. Box 32030, Louisville, Kentucky 40232-2030. LG&E is a utility as defined in KRS 278.010(3)(a) and (b), provides retail electric service to approximately 375,000 customers and retail gas service to approximately 302,000 customers in 17 counties in Kentucky, and is subject to this Commission's jurisdiction as to its retail rates and service. A certified copy of LG&E's Articles of Incorporation is already on file with the Commission in Case No. 2000-095, *In the Matter of: Joint Application of Powergen plc and LG&E Energy Corp., Louisville*

Gas and Electric Company and Kentucky Utilities Company for Approval of Merger, and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

2. KU is a corporation organized pursuant to Kentucky and Virginia law. KU's post office address is One Quality Street, Lexington, Kentucky 40507. KU is a utility as defined by KRS 278.010(3)(a), provides retail electric service to approximately 496,000 customers in 77 counties in Kentucky and five counties in southwestern Virginia, and is subject to this Commission's jurisdiction as to retail rates and service in Kentucky. A certified copy of KU's Articles of Incorporation is already on file with the Commission in Case No. 2000-095, *In the Matter of: Joint Application of Powergen plc and LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of Merger*, and is incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

3. This Application is filed pursuant to KRS 278.220, which authorizes the Commission to prescribe the accounting to be used by any public utility subject to its jurisdiction.

4. Communications regarding this Application should be addressed to:

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Allyson K. Sturgeon
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1700 PNC Plaza
500 West Jefferson Street
Louisville, Kentucky 40202
Telephone: (502) 582-1601

Michael S. Beer, Esq.
Vice President, Rates and Regulatory
Louisville Gas and Electric Company
220 West Main Street
Louisville, Kentucky 40202

5. Beginning in January 2001, LG&E, KU and LG&E Energy Services, Inc. employees were offered an opportunity to participate in a Workforce Transition Separation Program ("Program"). The purpose of the program was to reduce the number of employees through improved management tools and process redesign, including implementation of world class best practices and selective outsourcing, while achieving high quality customer service, safety and significant cost savings.

6. To qualify for the Workforce Transition Separation Program an employee must have been in a targeted group, and made an election to participate in the program no later than March 23, 2001. Employees in a targeted group were eligible for certain separation benefits depending upon whether they met the "Rule of 70" requirements. For those employees who did not meet the "Rule of 70" requirements and were not otherwise eligible for retirement by December 31, 2001, a reduced separation package was offered. The details of the Workforce Transition Separation Program are set forth in the Exhibit A to this application.

7. LG&E, KU and LG&E Energy Services, Inc. determined there were 2,530 employees eligible to participate in the Workforce Transition Separation Program. Of that total amount, 1,265 met the "Rule of 70" requirements and an equal number of employees were eligible for the reduced separation package. Following a detailed review by management of the potential impact of the Workforce Transition Separation Program and with input from representatives of IBEW Local 2100 on the potential impact of the Workforce Transition Separation Program on union employees, LG&E, KU and LG&E Energy Services, Inc. estimated that approximately 700 employees in total would elect to participate in the Program. Of the 2,530 eligible employees, 1,159 employees elected to voluntarily separate their employment - - 1,142 of which were employees of LG&E or KU. Of the 1,159 employees who voluntarily

separated their employment, 971 have exercised their election to retire. LG&E and KU have set specific termination dates for each of the employees participating in the program, with the date of termination to occur no later than December 31, 2001. As part of its next four year agreement with IBEW Local 2100, LG&E has agreed to hire 180 bargaining unit employees as part of its work force. In addition, approximately 108 non-bargaining positions will be backfilled within the next year. The savings and costs shown in this Joint Application are adjusted to reflect the backfilling of positions.

8. The total cost of the Workforce Transition Separation Program is $209.6 million, including severance payments, increased retirement and other post retirement benefit expense recognition, as well as administrative costs specifically related to the retirement feature under the Rule of 70 requirements (such as the costs of workshops, consulting fees, printing and miscellaneous supplies, but not including on-going operating costs) and similar expenditures. The total cost was influenced by the final number of employees who elected to retire under the Workforce Transition Separation Program and their ages, final salaries and other relevant characteristics. Exhibit B-1 shows the calculation of the total cost of the Workforce Transition Separation Program and the breakdown of the cost for LG&E, KU and LG&E Energy Services, Inc. Exhibit B-2 shows the allocation of the cost of the Workforce Transition Separation Program between the electric and gas operations of LG&E.

9. The cumulative estimated savings of the Workforce Transition Separation Program for the years 2001 through 2004 are approximately $206.6 million. Exhibit C ("LG&E Electric Savings"), Exhibit D ("LG&E Gas Savings") and Exhibit E ("KU Kentucky Jurisdictional Savings") show the estimated net savings through 2005 are $38.9 million (LG&E electric), $10.1 million (LG&E gas) and $19.1 million (KU Kentucky jurisdictional),

respectively. Exhibits C, D and E show that the savings more than offset the costs of implementation by the end of 2004.

10. The Financial Accounting Standard Board's *Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation* (December 1982) ("FASB No. 71") applies to "general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

> a. The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval of an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.
>
> b. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
>
> c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs."

FASB No. 71, ¶5 (footnotes omitted). FASB No. 71 recognizes that a regulatory authority may order an enterprise to capitalize and amortize a cost that would be charged to income currently by unregulated enterprises. Generally speaking, generally accepted accounting principals require regulated enterprises to charge expenses to income currently. FASB No. 71, however, recognizes that certain expenses may be *"capitalized"* to show that the cost would be recorded as the cost of an asset by a regulator. That procedure is referred to as "deferring a cost" and the resulting asset is described under FASB No. 71 as a "deferred cost." FASB No. 71, ¶4.

According to FASB No. 71, ¶9, the "[r]ate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost[1] that would otherwise be charged to expense if both of the following criteria are met:

> a. It is probable[2] that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes.
>
> b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost."

FASB No. 71, ¶9 (emphasis added; footnotes included).

An example provided in FASB No. 71 is the capitalization of a major research and development cost which is expected to benefit future customers. There, a regulator could direct that the cost be capitalized and amortized as an allowable cost over the period of the expected benefit. This accounting is permissible under FASB No. 71 if the criteria in ¶9 are satisfied even though other financial accounting standard bulletins would require the cost to be charged to income currently. The Commission's application of the criteria in FASB No. 71 to create deferred debits that are then amortized over an appropriate period is well established. For example, in its September 30, 1991 Order on Rehearing in Case No. 90-158, the Commission recognized that amortization of some of LG&E's downsizing costs was appropriate for rate-

[1] An *incurred cost* is "a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for" (Eric L. Kohler, *A Dictionary for Accountants*, 5th ed. [Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1975], p. 253). [footnote no. 5 in FASB No. 71]

[2] The term *probable* is used in this Statement with its usual general meaning, rather than in a specific technical sense, and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved *(Webster's New World Dictionary of the American Language*, 2d college ed. [New York and Cleveland: World Publishing Company, 1972], p. 1132). That is the meaning referred to by FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*. [footnote no. 6 in FASB No. 71]

making purposes, due to "the material nature of the costs, the future benefits of downsizing which should be available to the ratepayers and shareholders of LG&E, and the matching of those benefits with the costs." September 30, 1991 Order, p. 14. Similarly, in the Commission's Order of September 12, 1997 approving the LG&E and KU merger in Case No. 97-300, the Commission approved the establishment of a regulatory asset to reflect the unamortized balance of the ratepayers' portion of the merger costs. In that case, the annual amortization was offset against the estimated savings to be achieved during each of the first five years after the merger. Most recently, in the Commission's Order of September 27, 2000 in Case No. 2000-080, the Commission approved the establishment of a regulatory asset and the amortization thereof in gas operations resulting from the One Utility Program. Order of September 27, 2000, pp. 29-31.

11. In order to reflect the impact of the Workforce Transition Separation Program on LG&E's and KU's current and ongoing utility operations, LG&E and KU seek to capitalize their costs of the Program in accordance with paragraph 9 of FASB No. 71. Their costs of the Program would then be amortized on a straight-line basis over a four year period, commencing from April 2001. Such an amortization is appropriate because the charges would otherwise be concentrated in the first year while the savings will actually be realized over a longer period of time. Charging all of the costs for the Workforce Transition Separation Program in the period they are incurred would unfairly burden existing customers for the benefit of future customers. For this reason, capitalizing costs and amortizing them over a reasonable period during which the benefits of the Workforce Transition Separation Program will be realized is a reasonable method of reflecting the impact of the Program on LG&E's and KU's current and ongoing operations. As noted in Exhibits C, D and E, the payback period at which total estimated savings of the program reach the costs is approximately four years. Amortization of the costs over a period of

four years is reasonable and consistent with amortization periods used for other similar programs of LG&E and KU. In LG&E's last gas base rate case, the Commission allowed LG&E to amortize the costs of its One Utility Program workforce reduction over a period of three years. In Case No. 97-300 regarding the merger of LG&E and KU, Commission ordered the companies to amortize similar costs over a period of five years. In each case, the amortization periods were structured to recognize the impact of the costs and savings of the initiative over a reasonably comparable period of time.

13. Consistent with the requirements of U.S. Generally Accepted Accounting Principles, LG&E and KU expensed the cost of the Workforce Transition Separation Program in their first quarters for 2001 financial statements. Upon issuance of the order requested in their Joint Application, LG&E and KU will reverse the previous charges and establish a regulatory asset to be amortized over the authorized amortization period. Specifically, LG&E and KU propose to account for the costs of their Workforce Transition Separation Program by charging them to the Uniform System of Accounts No. 182.3 *Other Regulatory Assets* and amortizing these amounts to the Uniform System of Accounts No. 930.2 *Miscellaneous General Expenses* over the proposed four-year period. LG&E and KU will file their accounting journal entries with the Commission within 30 days after the Commission issues its order in this proceeding.

14. LG&E and KU also request the Commission to declare that LG&E and KU shall include the annual amortized expense portion from the deferred debits in their calculations of their annual ESM filings. With respect to the cost attributable to LG&E's gas operations, LG&E proposes to establish a regulatory asset for the costs of the Workforce Transition Separation Program related to its gas operations and to commence amortization concurrent with the next gas base ratemaking proceeding.

15. The Commission has consistently encouraged utilities to expend resources today in order to secure sizeable future benefits for ratepayers. See generally, *In the Matter of: Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company*, Case No. 90-158, Order on Rehearing (September 30, 1991); *In the Matter of: Joint Application of Louisville Gas And Electric Company and Kentucky Utilities Company for Approval of Merger*, Case No. 97-300, Order (September 12, 1997); and *In the Matter of: The Application of Louisville Gas and Electric Company to Adjust its Gas Rates and to Increase its Charges for Disconnecting Service, Reconnecting Service and Returned Checks*, Case No. 2000-080, Order (September 27, 2000). Allowing LG&E and KU to recover the costs of a program like the Workforce Transition Separation Program in existing and future rates will result in equitable treatment to the utilities and will encourage future investments in needed efficiencies that benefit rate payers. For these reasons, and in order to properly match the costs and benefits of the Workforce Transition Separation Program, the relief requested in this Application should be approved.

WHEREFORE, Applicants request that the Commission enter an order no later than December 1, 2001:

(1) approving the creation of a \$144,385,000 deferred debit for Louisville Gas and Electric Company,

(2) approving the creation of a \$56,300,000 deferred debit for Kentucky Utilities Company,

(3) ordering the amortization of \$114,569,000 of \$144,385,000 deferred debit for Louisville Gas and Electric Company that is attributable to LG&E's electric operations over a four year period beginning April, 2001,

(4) ordering the amortization of $29,816,000 of $144,385,000 deferred debit for Louisville Gas and Electric Company that is attributable to LG&E's gas operations to commence with LG&E's next gas base rate case,

(5) ordering the amortization of $56,300,000 deferred debit for KU that is attributable to KU's Kentucky jurisdictional operations over a four year period beginning April, 2001, and

(6) declaring that the annual amortization expense portion of the deferred debits attributable to LG&E's and KU's electric operations in Kentucky be included in the annual calculation of their Earnings Sharing Mechanism Tariffs.

June 1, 2001

Respectfully submitted,

By [signature]
Louisville Gas and Electric Company
Kentucky Utilities Company

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Allyson K. Sturgeon
OGDEN NEWELL & WELCH PLLC
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500 West Jefferson Street
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Telephone: (502) 582-1601

Counsel for Louisville Gas and Electric Company and Kentucky Utilities Company

VERIFICATION

COMMONWEALTH OF KENTUCKY	)	
	)	**SS:**
COUNTY OF JEFFERSON	)	

The undersigned, **S. BRADFORD RIVES**, being duly sworn, deposes and says he is Senior Vice President of Finance and Controller for LG&E Energy Corp., Louisville Gas and Electric Company and Kentucky Utilities Company, that he has personal knowledge of the matters set forth in the foregoing Joint Application, and the contents therein are true and correct to the best of his information, knowledge and belief.

SBRives

S. BRADFORD RIVES

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 1st day of June, 2001.

Tammy J. Elzy (SEAL)
Notary Public

My Commission Expires:

Notary Public, State at Large, KY
My commission expires Nov. 9, 2002

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing brief was served by mailing a true and correct copy, via regular U.S. mail, to the following persons on the 1st day of June, 2001.

Michael L. Kurtz
Boehm, Kurtz & Lowry
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425 West Muhammad Ali Blvd.
Louisville, Kentucky 40202

Counsel for Louisville Gas and Electric
Company and Kentucky Utilities Company

215527.06

Exhibit A

Details of the Voluntary Separation Program

Employees in a targeted group were eligible for certain separation benefits depending upon their status in one of the following categories:

(1) **"Rule of 70" employees and other retirement eligible employees as of December 31, 2001, who are participants in a defined benefit retirement plan.** - "Rule of 70" is defined as any employee whose actual combined age and years of service, projected as of December 31, 2001, equals or exceeds 70.

(a) Enhanced Retirement Plan Benefits

- Participants receive the greater of the accrued pension benefits calculated as though they were age 55 or those benefits to which they are already entitled under the plan.
- Participants receive an additional pension plan benefit equal to two weeks of base rate of pay in effect on December 31, 2000, per completed year of service (projected as of December 31, 2001). The maximum level of benefit enhancement is the equivalent of 52 weeks of base pay. There is a minimum benefit enhancement of 16 weeks for supervisors and above, eight weeks for exempt non-supervisors and four weeks for non-exempt salaried employees. This pension benefit will be eligible either for roll-over to a 401(k) or an IRA **OR** can be used to "buy-up" additional monthly pension benefits **OR** can be taken

in cash with applicable withholdings and penalties associated with pension plan withdrawals. Any election to direct this distribution to the 401(k) must be made prior to the employee's retirement date.

(b) Additional Enhanced Separation Benefits

- Post-retirement medical benefits including the monthly medical credit of $160 and additional $100 for spouse or dependents, not to exceed $260 in total. (Credits will begin after expiration of the employee's benefit continuation period described below.)
- A severance payment in one lump sum equal to two weeks of their base rate of pay in effect on December 31, 2000, per completed year of service (projected to December 31, 2001). The maximum severance payment is 52 weeks of base pay. There is a minimum severance benefit of 16 weeks for supervisors and above, eight weeks for exempt non-supervisors and four weeks for non-exempt salaried employees.
- Payment of the participant's existing level of group medical insurance premiums for the number of months equal to the participant's completed actual years of service, projected as of December 31, 2001, minimum of six months and maximum of 18 months.
- Payment of the participant's existing level of coverage for basic group dental insurance premiums for the number of months equal to the participant's completed actual years of service, projected as of December 31, 2001, as long as the former employee remains eligible for benefits under the Consolidated Omnibus Budget Reconciliation

Act (COBRA), with a minimum of six months and a maximum of 18 months.

- Payment of the participant's existing level of coverage for group life insurance premium for up to six months following termination of employment.
- Outplacement services subject to terms and conditions established between LG&E Energy Corp. and the provider of these services.
- Educational assistance under the administrative terms of LG&E's and KU's Tuition Reimbursement Plan for a period of two years. Note: Any payment of this benefit after the date of separation is a taxable event.

(2) Employees who are NOT retirement eligible by December 31, 2001, and do NOT meet the "Rule of 70".

- A severance payment in one lump sum equal to four weeks of their base rate of pay in effect at December 31, 2000 per completed year of service (projected to December 31, 2001). The maximum severance payment is 104 weeks. There is a minimum severance benefit of 16 weeks for supervisors and above, eight weeks for exempt non-supervisors and four weeks for non-exempt salaried employees.
- Payment of the participant's existing level of coverage for group medical and dental insurance premiums for the number of months equal to the participant's completed actual years of service, projected as of December 31, 2001, as long as the former employee remains

eligible for benefits under COBRA, with a minimum of six months and a maximum of 18 months.

- Payment of the participant's existing level of coverage for basic group life insurance premium for up to six months following termination of employment.
- Outplacement services subject to terms and conditions established between LG&E Energy Corp. and the provider of these services.
- Educational assistance under the administrative terms of LG&E's and KU's Tuition Reimbursement Plan for a period of two years. Note: Any payment of this benefit after the date of separation is a taxable event.

220046.02

LG&E Energy Corp.
Workforce Transition Separation Program Cost to Achieve

	LG&E	KU	LG&E Energy Services (LESI)	Total LG&E, KU, and LESI
1. Salaried Retirement Plan	$ 11,433,388	$ 27,174,255	$ 361,717	$ 38,969,360
2. LG&E Union Retirement Plan	$ 52,239,443			$ 52,239,443
3. Sub-Total (1+2)	$ 63,672,831	$ 27,174,255	$ 361,717	$ 91,208,803
4. Salaried Retiree Medical & Dental Plan	$ 6,346,478	$ 13,881,295	$ 314,641	$ 20,542,414
5. LG&E Union Retirement Plan	$ 26,754,168	$ -	$ -	$ 26,754,168
6. Sub-Total (4+5)	$ 33,100,646	$ 13,881,295	$ 314,641	$ 47,296,582
7. Severance Benefits Outside of Retirement Plans				
a. Retirement Eligibles	$ 5,960,044	$ 13,933,446	$ 226,704	$ 20,120,194
LG&E Union Participants	$ 25,762,926	$ -	$ -	$ 25,762,926
Sub-Total (7a)	$ 31,722,970	$ 13,933,446	$ 226,704	$ 45,883,120
b. Non-Retirement Eligibles	$ 1,510,776	$ 4,622,676	$ 435,512	$ 6,568,964
LG&E Union Participants	$ 5,063,128			$ 5,063,128
Sub-Total (7b)	$ 6,573,904	$ 4,622,676	$ 435,512	$ 11,632,092
8. Present Value of COBRA Medical & Dental Coverage				
Salaried	$ 1,112,106	$ 3,077,074	$ 103,674	$ 4,292,854
Union	$ 5,855,901			$ 5,855,901
Sub-Total (8)	$ 6,968,007	$ 3,077,074	$ 103,674	$ 10,148,755
Total of Actuarial Calculations	**$ 142,038,358**	**$ 62,688,746**	**$ 1,442,248**	**$206,169,352**
Payroll Taxes @ 7.65% [1]	$ 1,464,855	$ 709,772	$ 25,330	$ 2,199,957
Tuition Reimbursement and Outplacement [2]	$ 882,281	$ 389,396	$ 8,959	$ 1,280,636
Total Accrual March 2001	**$ 144,385,494**	**$ 63,787,914**	**$ 1,476,537**	**$209,649,945**
Number of Employees	**784**	**358**	**17**	**1,159**

[1] Rate of 7.65% applied to 7 a. and b (Severance benefits outside of retirement plans). It is assumed that due to cap limitations for each employee, only 1/2 of the payroll taxes will actually be needed.
[2] Estimate of 10% Take-Rate X $11k per employee who uses the tuition benefit.

Louisville Gas and Electric
Workforce Transition Separation Program Cost to Achieve
Headcount Split Between Electric and Gas

	Electric Direct	Electric Allocated	Gas Direct	Gas Allocated	Metering	Corporate/ G&A	Total
LG&E Employee Breakdown by Function	538		129		38	79	784
Assign Direct	(538)	538	(129)	129			-
Allocate Metering Employees 55% Electric, 45% Gas [1]		21		17	(38)		-
Allocate Corporate/G&A 80% Electric, 20% Gas [1]		63		16		(79)	-
Employee Allocations	-	622	-	162	-	-	784
Percent Split		79.35%		20.65%			100.0%
Voluntary Separation Program Cost							$ 144,385,494
Allocate Between Electric and Gas Operations		$ 114,569,153		$ 29,816,341			

[1] Based on Accounting Study for electric and gas from 2000 data.

Louisville Gas and Electric Company
Five-Year Savings: O&M and Fixed Charges
LG&E Electric (Millions)

	2001	2002	2003	2004	2005	Total
Expense Savings (LG&E/KU/LESI)						
Generation	$ 9.7	$ 14.1	$ 20.3	$ 20.9	$ 21.5	$ 86.5
Distribution	$ 4.7	$ 14.4	$ 17.6	$ 18.1	$ 18.7	$ 73.5
Transmission	$ -	$ 0.5	$ 0.8	$ 0.8	$ 0.8	$ 3.0
IT	$ 2.1	$ 4.2	$ 4.8	$ 4.9	$ 5.1	$ 21.1
Retail Business	$ 0.4	$ 3.4	$ 4.6	$ 4.7	$ 4.9	$ 18.0
Legal	$ 1.7	$ 2.6	$ 4.0	$ 4.1	$ 4.2	$ 16.7
Administration	$ 1.8	$ 4.5	$ 4.9	$ 5.0	$ 5.2	$ 21.4
Finance	$ 2.5	$ 3.5	$ 4.0	$ 4.1	$ 4.2	$ 18.4
Total Expense Savings	$ 22.9	$ 47.2	$ 61.0	$ 62.8	$ 64.7	$ 258.6
Fixed Charge Savings	$ 0.3	$ 1.7	$ 4.0	$ 6.7	$ 9.5	$ 22.2
Total Expense and Fixed Charge Savings	$ 23.2	$ 48.9	$ 65.0	$ 69.5	$ 74.2	$ 280.8
LG&E Percent of the Total Cost to Achieve [1]	68.87%	68.87%	68.87%	68.87%	68.87%	
LG&E Electric Allocation Percent [2]	79.35%	79.35%	79.35%	79.35%	79.35%	
LG&E Electric Portion	$ 12.7	$ 26.7	$ 35.5	$ 38.0	$ 40.6	$ 153.5
Cost to achieve amortization [3]	$ 21.5	$ 28.7	$ 28.7	$ 28.7	$ 7.2	$ 114.6
Net Savings - LG&E Electric	$ (8.8)	$ (2.0)	$ 6.9	$ 9.3	$ 33.4	$ 38.9

[1] Percent of the LG&E cost to achieve to the total cost to achieve from Exhibit B-1.
[2] Electric percent allocation from Exhibit B-2.
[3] Amortization is over a four-year period, commencing April 1, 2001.

Louisville Gas and Electric Company
Five-Year Savings: O&M and Fixed Charges
LG&E Gas (Millions)

	2001	2002	2003	2004	2005	Total
Expense Savings (LG&E/KU/LESI)						
Generation	$ 9.7	$ 14.1	$ 20.3	$ 20.9	$ 21.5	$ 86.5
Distribution	$ 4.7	$ 14.4	$ 17.6	$ 18.1	$ 18.7	$ 73.5
Transmission	$ -	$ 0.5	$ 0.8	$ 0.8	$ 0.8	$ 3.0
IT	$ 2.1	$ 4.2	$ 4.8	$ 4.9	$ 5.1	$ 21.1
Retail Business	$ 0.4	$ 3.4	$ 4.6	$ 4.7	$ 4.9	$ 18.0
Legal	$ 1.7	$ 2.6	$ 4.0	$ 4.1	$ 4.2	$ 16.7
Administration	$ 1.8	$ 4.5	$ 4.9	$ 5.0	$ 5.2	$ 21.4
Finance	$ 2.5	$ 3.5	$ 4.0	$ 4.1	$ 4.2	$ 18.4
Total Expense Savings	$ 22.9	$ 47.2	$ 61.0	$ 62.8	$ 64.7	$ 258.6
Fixed Charge Savings	$ 0.3	$ 1.7	$ 4.0	$ 6.7	$ 9.5	$ 22.2
Total Expense and Fixed Charge Savings	$ 23.2	$ 48.9	$ 65.0	$ 69.5	$ 74.2	$ 280.8
LG&E Percent of the Total Cost to Achieve [1]	68.87%	68.87%	68.87%	68.87%	68.87%	
LG&E Gas Allocation Percent [2]	20.65%	20.65%	20.65%	20.65%	20.65%	
LG&E Gas Portion	$ 3.3	$ 6.9	$ 9.2	$ 9.9	$ 10.6	$ 39.9
Cost to achieve amortization [3]	$ 5.6	$ 7.5	$ 7.5	$ 7.5	$ 1.9	$ 29.8
Net Savings - LG&E Gas	$ (2.3)	$ (0.5)	$ 1.8	$ 2.4	$ 8.7	$ 10.1

[1] Percent of the LG&E cost to achieve to the total cost to achieve from Exhibit B-1.
[2] Gas percent allocation from Exhibit B-2
[3] Pro forma amortization is over a four-year period, as if commencing April 1, 2001.

Kentucky Utilities
Five-Year Savings: O&M and Fixed Charges
Kentucky Jurisdictional (Millions)

	2001	2002	2003	2004	2005	Total
Expense Savings (LG&E/KU/LESI)						
Generation	$ 9.7	$ 14.1	$ 20.3	$ 20.9	$ 21.5	$ 86.5
Distribution	$ 4.7	$ 14.4	$ 17.6	$ 18.1	$ 18.7	$ 73.5
Transmission	$ -	$ 0.5	$ 0.8	$ 0.8	$ 0.8	$ 3.0
IT	$ 2.1	$ 4.2	$ 4.8	$ 4.9	$ 5.1	$ 21.1
Retail Business	$ 0.4	$ 3.4	$ 4.6	$ 4.7	$ 4.9	$ 18.0
Legal	$ 1.7	$ 2.6	$ 4.0	$ 4.1	$ 4.2	$ 16.7
Administration	$ 1.8	$ 4.5	$ 4.9	$ 5.0	$ 5.2	$ 21.4
Finance	$ 2.5	$ 3.5	$ 4.0	$ 4.1	$ 4.2	$ 18.4
Total Expense Savings	$ 22.9	$ 47.2	$ 61.0	$ 62.8	$ 64.7	$ 258.6
Fixed Charge Savings	$ 0.3	$ 1.7	$ 4.0	$ 6.7	$ 9.5	$ 22.2
Total Expense and Fixed Charge Savings	$ 23.2	$ 48.9	$ 65.0	$ 69.5	$ 74.2	$ 280.8
KU Percent of the Total Cost to Achieve [1]	30.43%	30.43%	30.43%	30.43%	30.43%	
KU Kentucky Jurisdictional Factor [2]	88.21%	88.21%	88.21%	88.21%	88.21%	
KU Kentucky Jurisdictional Portion	$ 6.2	$ 13.1	$ 17.4	$ 18.7	$ 19.9	$ 75.4
Cost to achieve amortization [3]	$ 10.6	$ 14.1	$ 14.1	$ 14.1	$ 3.5	$ 56.3
Net Savings - KU Kentucky Jurisdictional	$ (4.3)	$ (1.0)	$ 3.4	$ 4.6	$ 16.4	$ 19.1

[1] Percent of the KU cost to achieve to the total cost to achieve from Exhibit B-1.
[2] KU Kentucky jurisdictional percent of total KU based on 2000 jurisdictional study - labor allocator.
[3] Amortization is over a four-year period, commencing April 1, 2001.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY AND KENTUCKY UTILITIES COMPANY FOR AN ORDER APPROVING PROPOSED DEFERRED DEBITS AND DECLARING THE AMORTIZATION OF THE DEFERRED DEBITS TO BE INCLUDED IN EARNINGS SHARING MECHANISM CALCULATIONS	))))))))	**CASE NO: 2001-** 169

MOTION FOR INFORMAL CONFERENCE

Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU") (collectively referred to as "Applicants"), by counsel, hereby move the Public Service Commission to enter an order scheduling an informal conference during the week of July 16, 2001 for the purposes of discussing any issues related to this Joint Application and to resolve any questions from Intervenors on the filing.

Dated: June 1, 2001

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing brief was served by mailing a true and correct copy, via regular U.S. mail, to the following persons on the 1st day of June, 2001.

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